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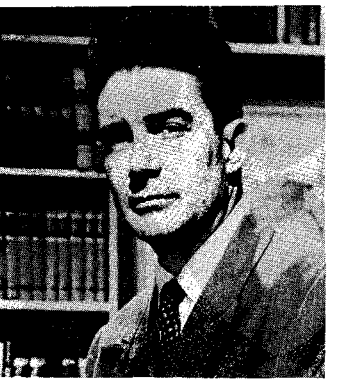

DAN SMOOT

INFLATION

There is wide concern about our "overheated economy"— a phrase which means inflation. What does inflation mean? It means that you pay 95¢ for a pound of bacon that cost 65¢ a year ago; 89¢ for ham that cost 59¢; $1.39 for steak that cost $1.29; 79¢ for roast that cost 75¢; 78¢ for butter that cost 73¢; 51¢ for milk that cost 49¢; 61¢ for margarine that cost 59¢; 65¢ for eggs that cost 51¢.[1]

While denying that we are in danger of inflation, President Johnson has been trying to combat inflation with his "voluntary wage-price guidelines." By ruthless use of executive power, he has forced key industries to comply; but union bosses sneer at the President's pleas. The guidelines are dissolving.[2]

The President And The Squalling Cat

Enthusiasts for the "new economics" are optimistic, however. They say government has enough economic stabilizers to check inflation before it gets out of hand. The stabilizers include:

— Increase in taxes, to take purchasing power away from the people and business, on the assumption that forced reduction in private spending will cause prices to decline;

— Price controls enforced by government, if the President cannot continue by his present methods to keep business from raising prices;

— Wage controls enforced by government, if conditions become desperate.[3]

Such stabilizers will have some temporary effect, but, in the long run, will fail because they are aimed at the wrong target.[3]

Wet streets do not cause rain. Rain causes wet streets. Rising wages and prices do not cause inflation. Inflation causes rising wages and prices.

President Johnson, threatening and pleading for wage and price restraints in the private sector of our economy, is like a man standing on a cat's tail, berating the cat for squalling. Govern-

THE DAN SMOOT REPORT is published weekly by The Dan Smoot Report, Inc., Box 9538, Dallas, Texas 75214 (office at 6441 Gaston Ave.). Subscriptions: $18.00 for 2 years; $10.00, 1 year; $6.00, 6 months; first class, $12.50 a year; airmail, $14.50. Dan Smoot was born in Missouri, reared in Texas. With BA and MA degrees from SMU (1938 and 1940), he joined the Harvard faculty (1941) as a Teaching Fellow, doing graduate work in American civilization. From 1942 to 1951, he was an FBI agent; from 1951 to 1955, a commentator on national radio and television. In 1955, he started his present independent, free-enterprise business: publishing this REPORT and abbreviating it each week for radio and TV broadcasts available for commercial sponsorship by business firms.

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ment has caused the inflation which Johnson denies we have, but which he blames on business, unions, and the public. [2,3]

All persons, groups, forces, and special interests (including unions and business) contribute to inflation *indirectly*, when they support and lobby for inflationary government policies; but only government *directly* causes inflation.[3]

The New Economics

The "new economics" which guides the policies of our government is actually very old: governments have been manipulating the economy for political ends and stealing the peoples' wealth by debasing their currency, since the beginning of civilization. The chief modern exponent of the new economics — the man responsible for its adoption in the United States — is John Maynard Keynes of Great Britain.[3] Note the following from a column published March 17, 1966, written by Walter Lippmann, high priest of totalitarian liberalism in the United States:

"Forty years ago none except perhaps a few solitary thinkers in Europe believed that the capitalist system of private property and free enterprise . . . could proceed without severe ups and downs . . . .

"This fatalistic view was first challenged effectively in the Western world by John Maynard Keynes . . . . Keynes began to write in the 20s — between the depression after the first world war and the great depression of 1929. Keynes was long regarded as heretical, subversive, even sacrilegious in that he refused to bow with the accepted nature of things.

"However, Keynes' teachings made their way here and abroad in the universities and from them into the finance ministries of every advanced industrial nation. In the past five years a new generation of American economists, all of them descended in one manner or another from Keynes, has been at the center of policy making and decision.

"The economic policy which they have directed during the Kennedy and Johnson administrations has been in its overall results a dramatic success . . . ."[4]

Keynes' economics is the kind Hitler practiced in nazi Germany: government stimulates the economy by planned inflation—borrowing, spending, directly devaluing the currency. If the economy begins to overheat (that is, if inflation threatens to get out of hand), government tries to cool it down by raising taxes to decrease private spending and by imposing limits on wages and prices. In short, government manages the economy through controls, direct or indirect, which regulate wages and prices, buying and selling, production and consumption, borrowing and lending.[3]

Keynes' theory that government should stimulate economic activity and gradually inflate the currency by deficit financing (spending borrowed money) actually became national policy during Franklin Roosevelt's first term. Roosevelt, Truman, and Eisenhower all ran huge deficits, consistently, piling up the national debt, just as Keynes recommended.

Yet, Roosevelt, Truman, and Eisenhower always pretended that they wanted and were striving for a balanced budget. Kennedy and Johnson, while paying lip service to the idea that government must live within its means, helped spread the propaganda that deficit financing is good for the country, sweetening the propaganda with promises of tax cuts.[5]

Government can get the money it needs by borrowing from the future; the people, through tax cuts, can be permitted to keep more of their own money; the nation, thus, can have its cake and eat it too; tax decreases are given in important election years; if spending so outpaces government's ability to borrow that taxes must be increased, the increases will be delayed until after important elections are held — that is the new economics as practiced by Kennedy and Johnson, especially Johnson.[2,3,5]

The Rotting Dollar

The value of the American dollar has rotted away at an average rate of about 2.4% per year since Keynes' economic theories were adopted in 1933. In the last three months, it has depreciated at an annual rate of nearly 6 percent.[5,6]

The worth of our dollar is often based on its

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value in 1939. On that basis, the dollar today is worth 42¢. That is not, however, a true measure. Roosevelt devalued the dollar by 40% in 1934 when he took us off the gold standard and reduced the gold content of our standard dollar unit from 25.8 grains to 15.24 grains. From June, 1933, to June, 1939, Roosevelt further devalued the dollar by deficit financing (spending, in those six years, $18.662 billions more than the government's total revenue). In terms of real purchasing power, the 1939 dollar was worth about 50% of the 1934 dollar. The 1966 dollar is worth 42% of the 1939 dollar. *The net result is that our dollar today, measured by* 1934 *standards, is worth about* 21¢.[5,6]

This means that the federal government has confiscated 79% of the wealth of every person in the United States since 1934, in addition to what it has taken from them in taxes.

Consider the effect. A thrifty, industrious American with average or below-average earning power began his working career at age 28 in 1934, planning to retire at age 60 in 1966. He calculated that $25,000 would see him and his wife comfortably through the retirement years. During the 32 years of his working life, government made it difficult for him to save $25,000, because government took, in taxes, about one-third of every penny he earned. By denying himself and family many luxuries and some necessities, he saved the $25,000; but in 1966, at the end of the long stretch, he discovers that, in addition to all the money government has taken away from him in taxes since 1934, government has stolen $19,750 of the $25,000 he saved. The $25,000 in his retirement fund will buy approximately what $5250.00 would have bought in 1934.

Having made it impossible for millions to provide for their own security, the government has illegally assumed the role of provider. Yet, government benefits are always short of needs.

Just Around The Corner

What is the end result of planned inflation? John Maynard Keynes himself clearly foresaw the end. In *The Economic Consequences of The Peace*, published in 1919, Keynes said:

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate arbitrarily . . . . Lenin certainly was right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million can diagnose."

The planned destruction of our capitalist system is far advanced. Collapse of our economy is just around the corner, but no one knows when we will reach the corner. Thanks to our own government, we are already at the mercy of foreign governments and bankers who hold claims on more gold than is in our monetary reserve. Whenever they demand payment, we will be bankrupt—a nation of worthless currency, closed factories, mass unemployment. Eventually, some foreign government or group of foreign bankers, anxious about their dollar holdings, will try to cash in their dollars before all our gold is gone. That will start the run, and our ruin will come quickly.

I do not think this catastrophe will occur soon. My guess is that it will occur (if our government's present policies continue) in about ten years. By then, our dollar will have lost another 20% of its purchasing power; and our gold reserve will be down to two or three billion dollars.

Americans have been brainwashed, not only by "new economics" propaganda, but by the reality of a prolonged period of booming prosperity.

Our *general* prosperity has been created by American private enterprise, despite heavy burdens imposed by government; but many influential groups owe *their* prosperity to government's inflationary policies. Every time government spends another billion dollars of borrowed money, businesses that get government contracts, unions that get more members, investors who profit from in-

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creased economic activity, feel immediate benefits. The resulting inflation comes more slowly, more subtly, hurting first the millions on fixed salaries and pensions. Eventually, government placates many of these with increased welfare benefits, bigger social security payments, subsidized housing, and so on. Rising prices and growing demands for increased government benefits require more deficit financing which spurs the economy again, leading to more demands and more deficit financing.

That is the kind of prosperity we have been living in for a number of years, and it may continue for several more.

A rider on a fine, high-spirited horse can get a little more speed with every gig of the spurs, right up to the moment when the horse drops dead. "You are killing that horse," cautious observers may shout; but the rider, concerned only with what he wants at the moment, calls back: "Killing him! He's running better all the time!"

Government is the rider. Our national economy is the horse, which would have collapsed long ago but for its gargantuan strength and incalculable stamina. But even our magnificent economy cannot forever endure the abuse it has taken for more than thirty years.

Anon, the reckoning will come; and dreadful it will be!

We can avoid the calamity by forcing government to stop all unconstitutional, inflationary spending — for welfare, education, health, housing, transportation, foreign aid, defense of foreign nations.

To save our nation from ruin, we must, in other words, dismantle the federal socialist welfare state, and compel the federal government to operate within the bounds of constitutional authority.

We can do it by electing constitutionalists to Congress. That will be a long hard road. Liberals promise to give the people everything they want; and a majority of voters do not yet realize that political promises of something for nothing are, in the end, cruel lies.

Hence, we need more public education.

We also need to repeal the income tax amendment and abolish the federal income tax. The government could discharge all its constitutional functions and live within its budgets, without the income tax; but want of money would force it to abandon illegal activities.(7)

Then, candidates for public office could compete for votes, not as bandits who promise to plunder some for the benefit of others, but as statesmen who promise to maintain our constitutional Republic and leave the people free to work out their own destiny, with God's help.

FOOTNOTES

(1) "How Big The Price Rise? Is Lid Off?", *U.S. News & World Report*, March 28, 1966, pp. 31-3

(2) "Washington Report," Newsletter by U.S. Rep. James B. Utt, March 16, 1966, #4; "Building Trades Bar U.S. Efforts To Curb Pay Rises," by Damon Stetson, *The New York Times*, February 18, 1966, pp. 1, 17; "A Bit of Demagoguery," "Review *and* Outlook," *The Wall Street Journal*, January 5, 1966, p. 10; "Washington Whispers," *U.S. News & World Report*, March 28, 1966, p. 24; "It's Too Soon For Tax Boost, Johnson Says; No Curbs On Inflation Planned Now," by Merriman Smith, *The Dallas Morning News*, March 23, 1966, p. 1A

(3) "The New Economics: Compromise With Free Enterprise," *News Front*, May, 1965, pp. 29-31; "The 'New Economics' — What It Is, How It's Working," *U.S. News & World Report*, February 28, 1966, pp. 99-101; "Review and Outlook," editorial, *The Wall Street Journal*, March 7, 1966, p. 10; *Fiat Money Inflation In France*, by Andrew Dickson White, The Caxton Printers, Ltd., Caldwell, Idaho (price: $1.00); *Money And Man; A Survey Of Monetary Experience*, by Dr. Elgin Groseclose, Frederick Ungar Publishing Co., 131 East 23rd Street, New York, New York 10010 (price: $5.00); *Keynes At Harvard*, Veritas Foundation, P. O. Box 340, Wall Street Station, New York, New York 10005 (price: $2.00)

(4) "Economists Achieve Authority and Respect," by Walter Lippmann, *The Dallas Morning News*, p. 14A

(5) For details on government-planned deficit financing, see "Deficit Financing — Parts I and II," *The Dan Smoot Report*, March 4 and 11, 1963, pp. 65-80, 1963 (Volume IX) BOUND VOLUME, available at this office for $10.00, postpaid.

(6) News Release from the office of U.S. Rep. Richard L. Roudebush, February 25, 1966; "Hard Facts About Soft Money, No. 89," *California Mining Journal*, April, 1966, p. 14

(7) *Action For Americans; The Liberty Amendment*, by Lloyd G. Herbstreith and Gordon King, Operation America, Inc., 6414 Dix Street, Los Angeles, California 90028 (price: $1.00)

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